

# GENOVESE DRUG

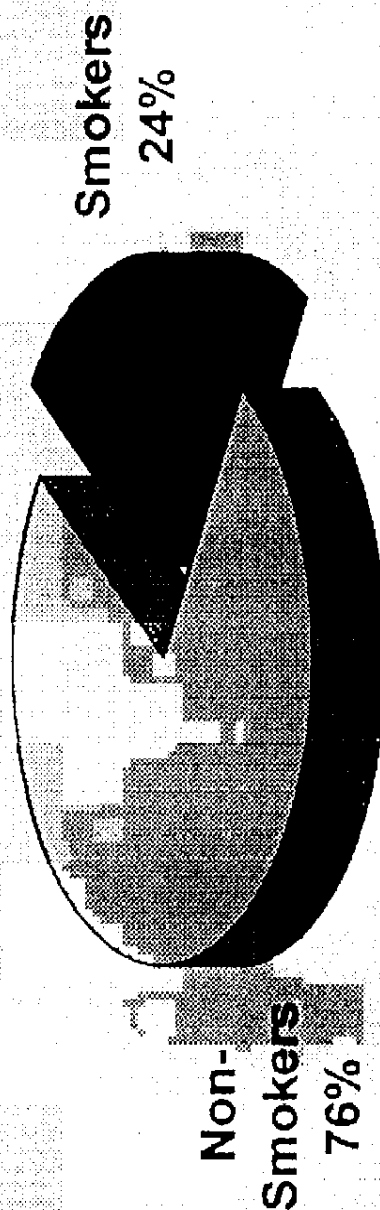
MERCHANDISING

1997

*R. J. Reynolds Tobacco Company*

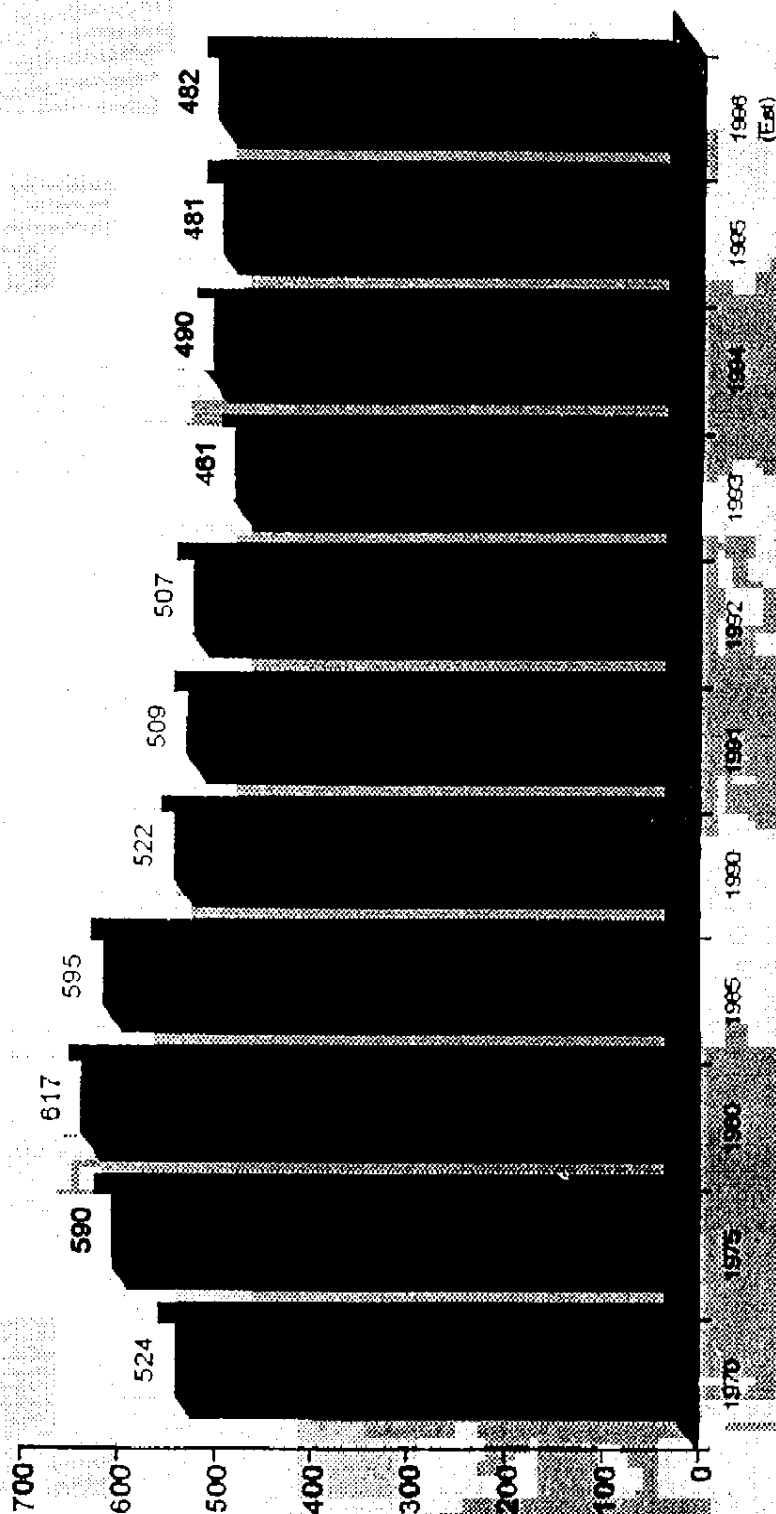
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## Smoking Incidence Percent of Total U.S. Adult Population



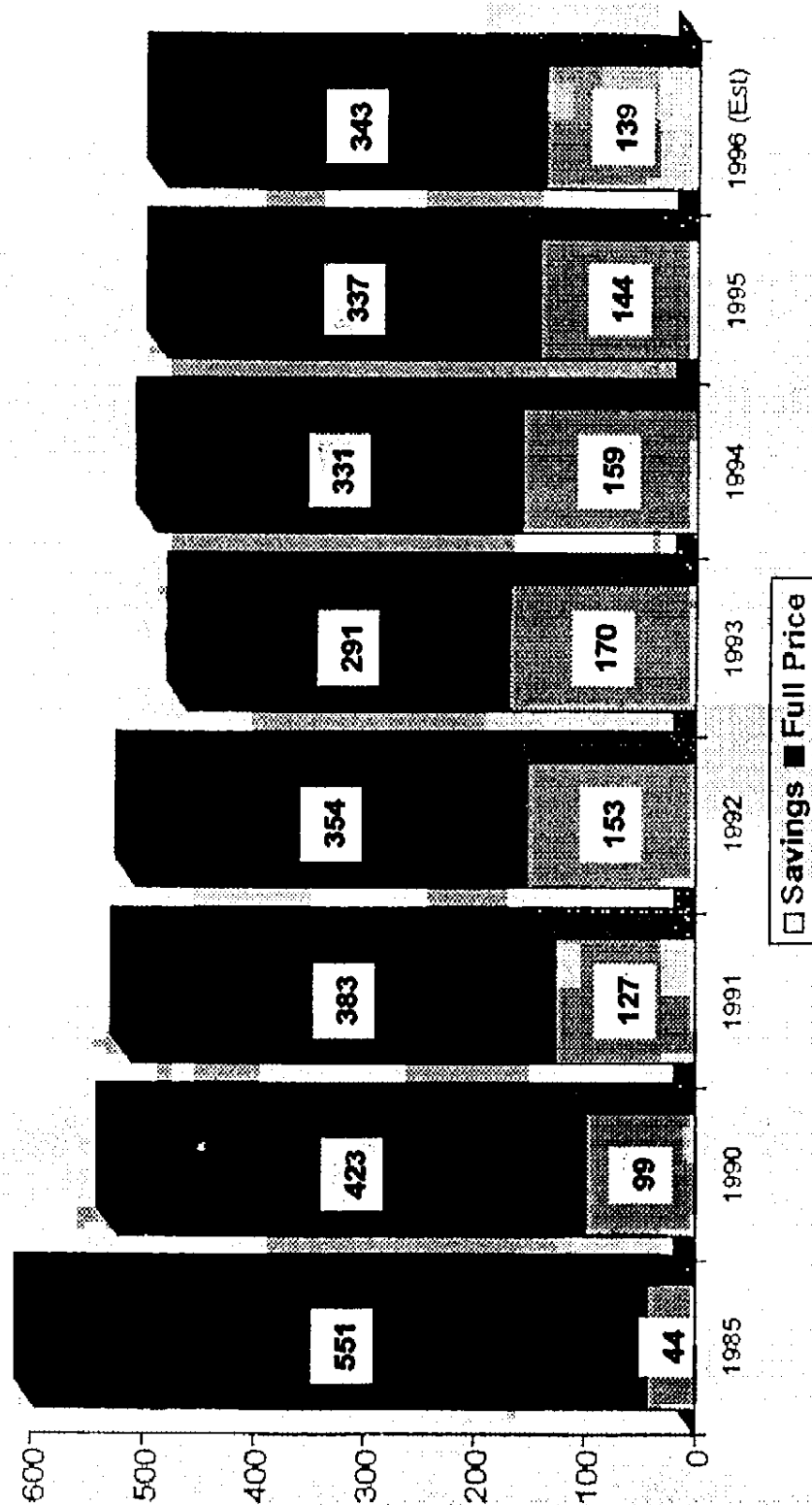
- Approximately 46 million adults are smokers

# Total U.S. Cigarette Industry Volume Billions of Cigarettes



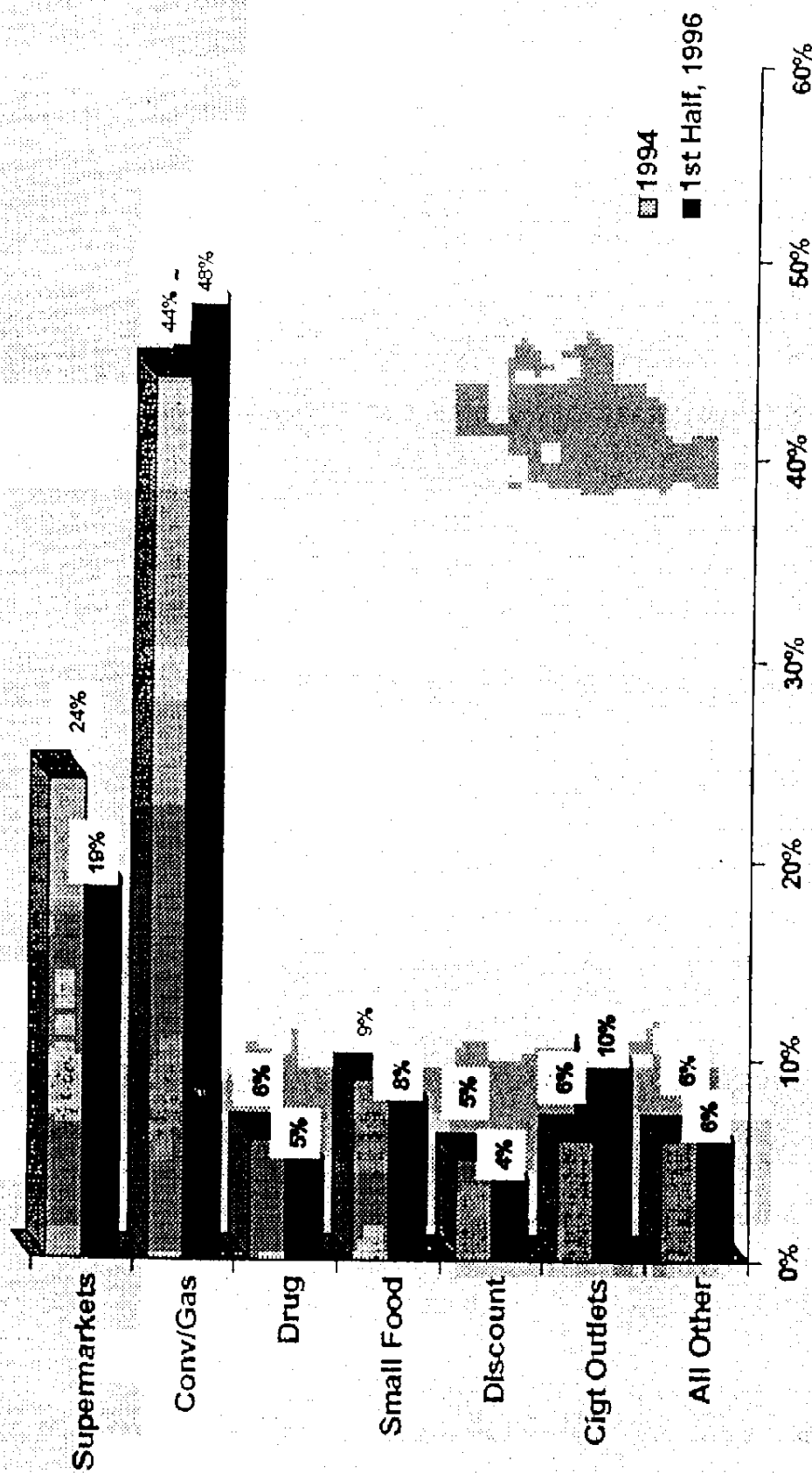
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# Total U.S. Full Price and Savings Volume Billions of Cigarettes



1616 75815

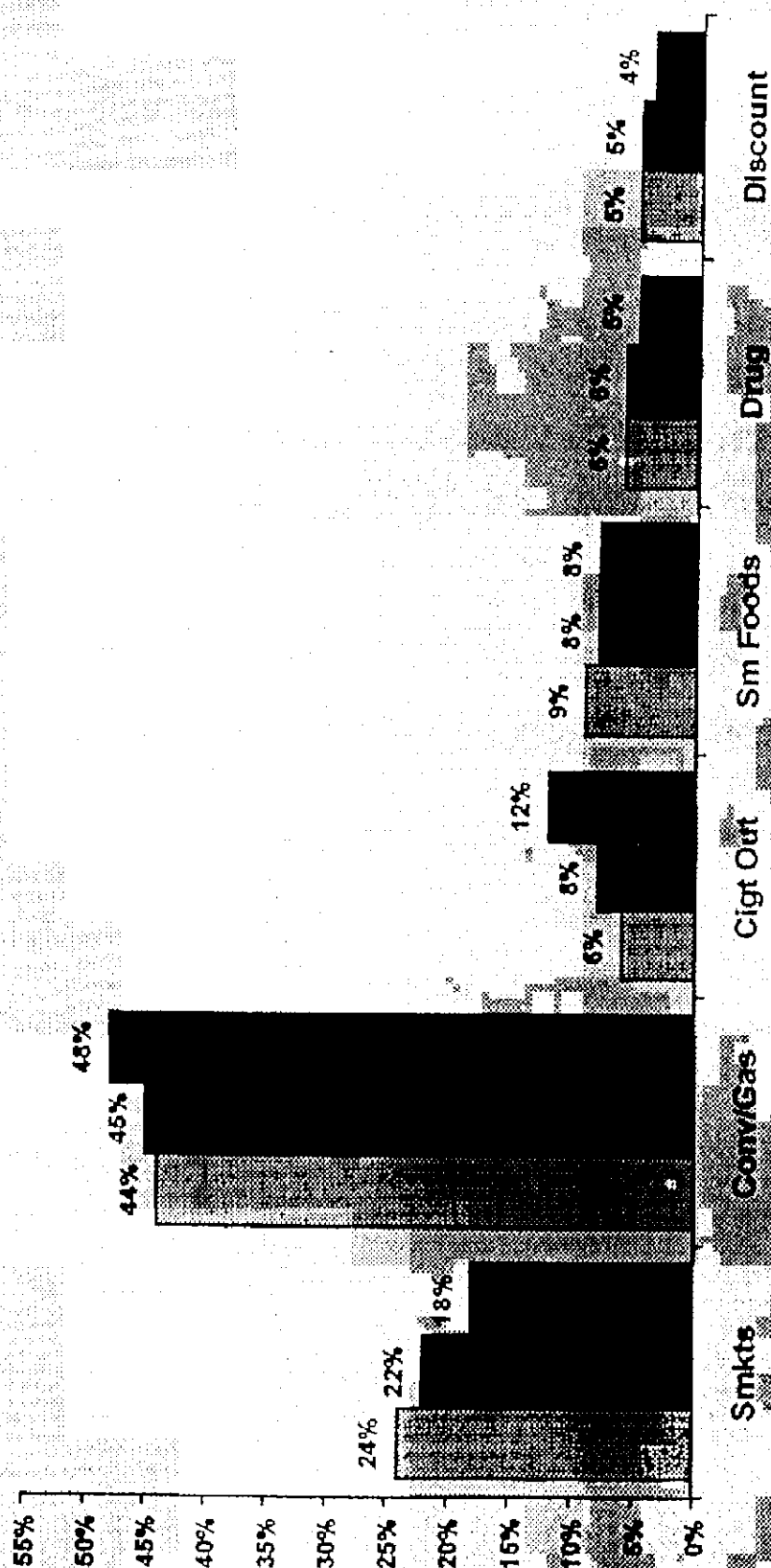
# **"Where Consumers Purchase"** **Percent Cigarette Volume**



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# Total U.S. Percent Cigarette Volume Trends By Retail Segment

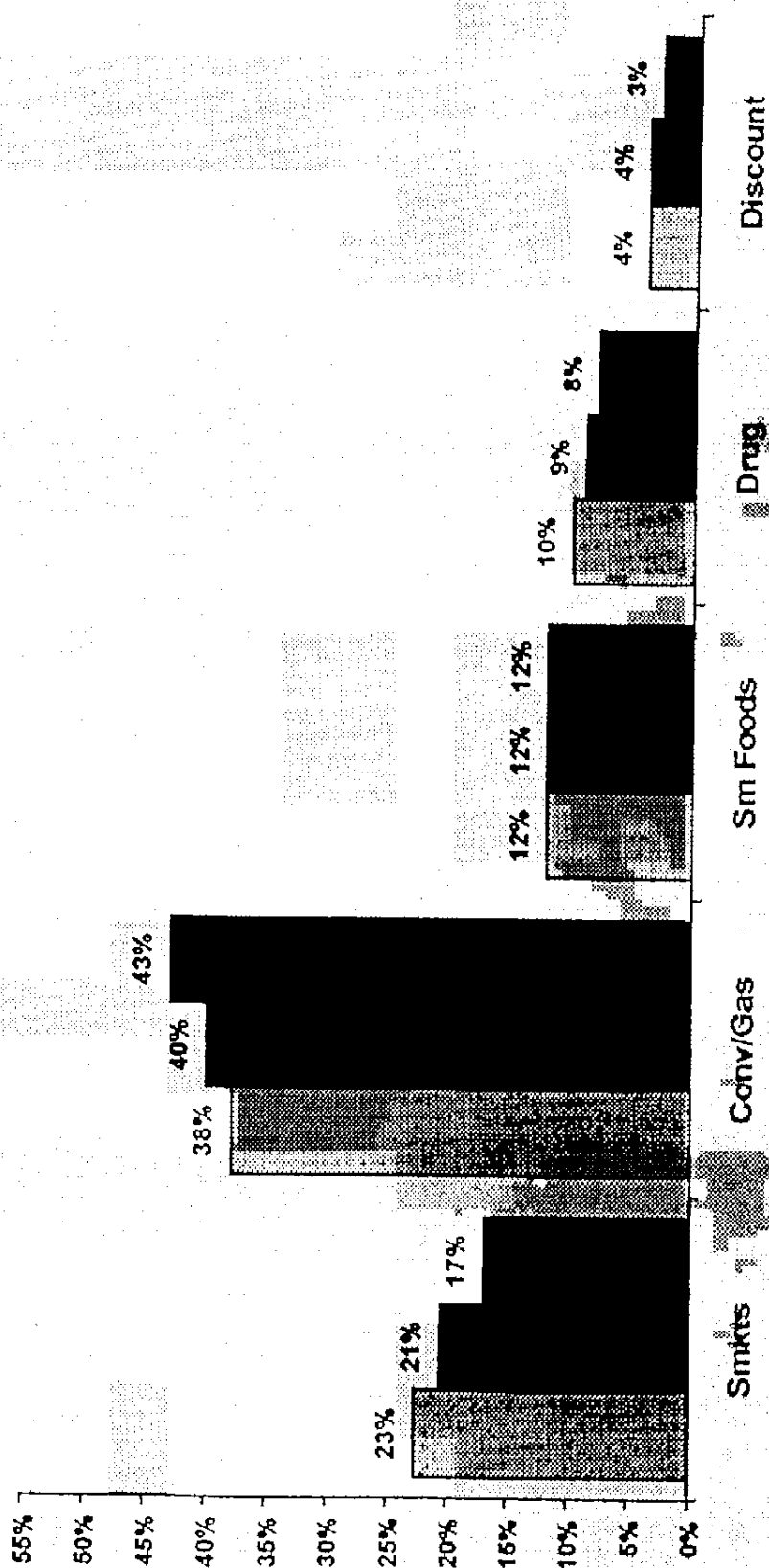
1994 1995 1996 (Est)



# Northeast U.S.

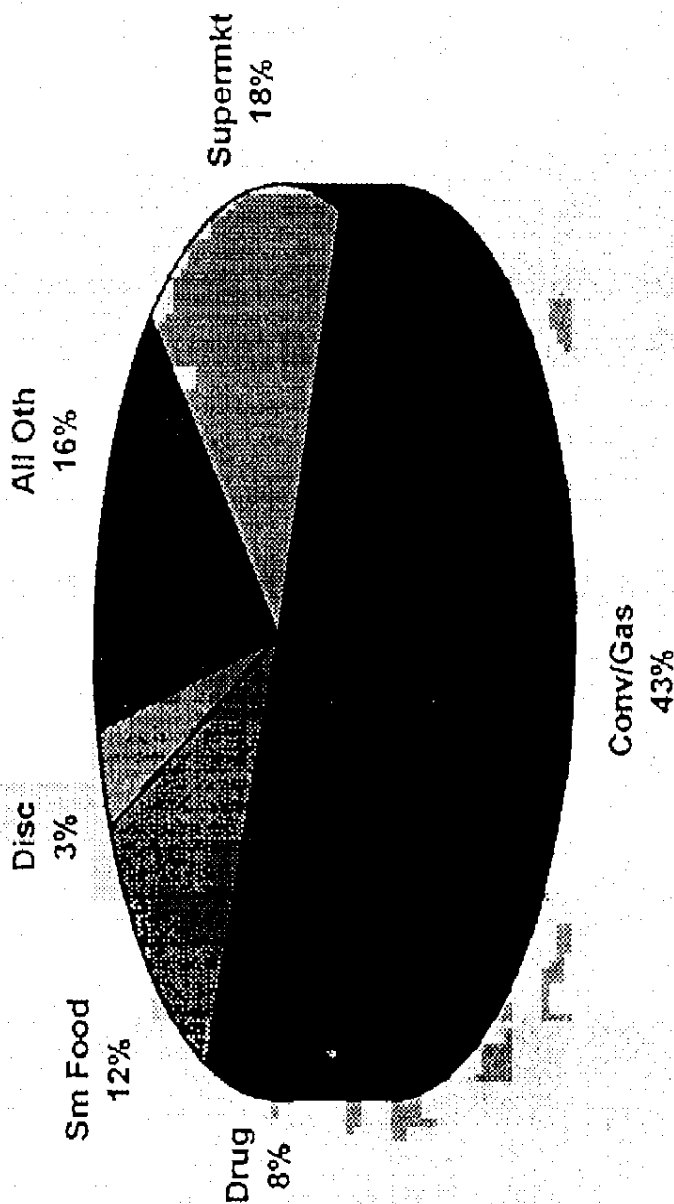
## Percent Cigarette Volume Trends By Retail Segment

1994 1995 1996 (Est)



0616/LS815

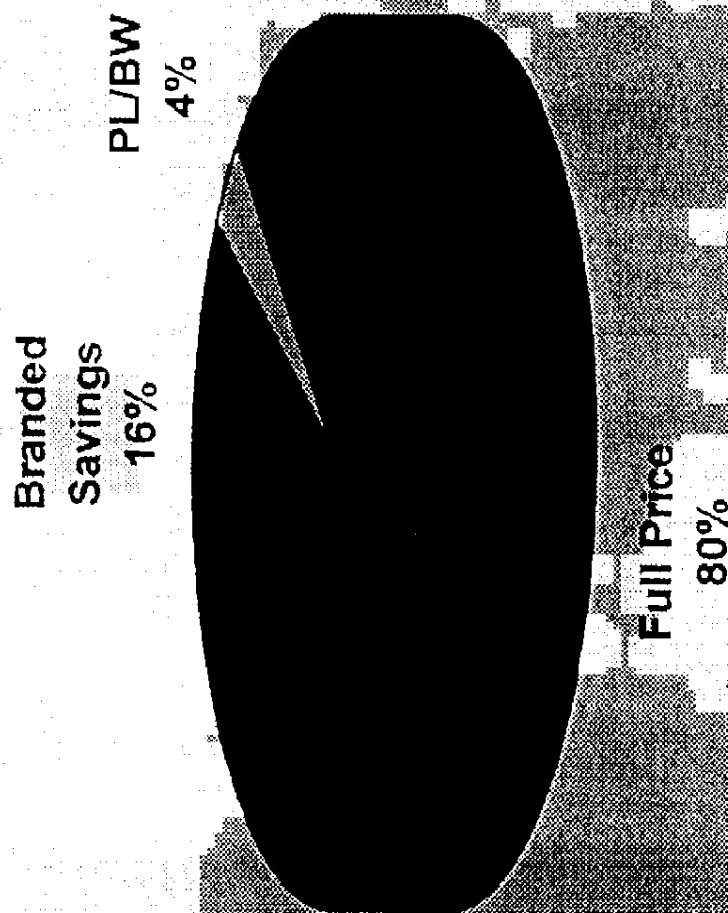
**"Where Consumers Purchase"**  
**Percent of Volume - Northeast U.S.**  
**1st Half, 1996**



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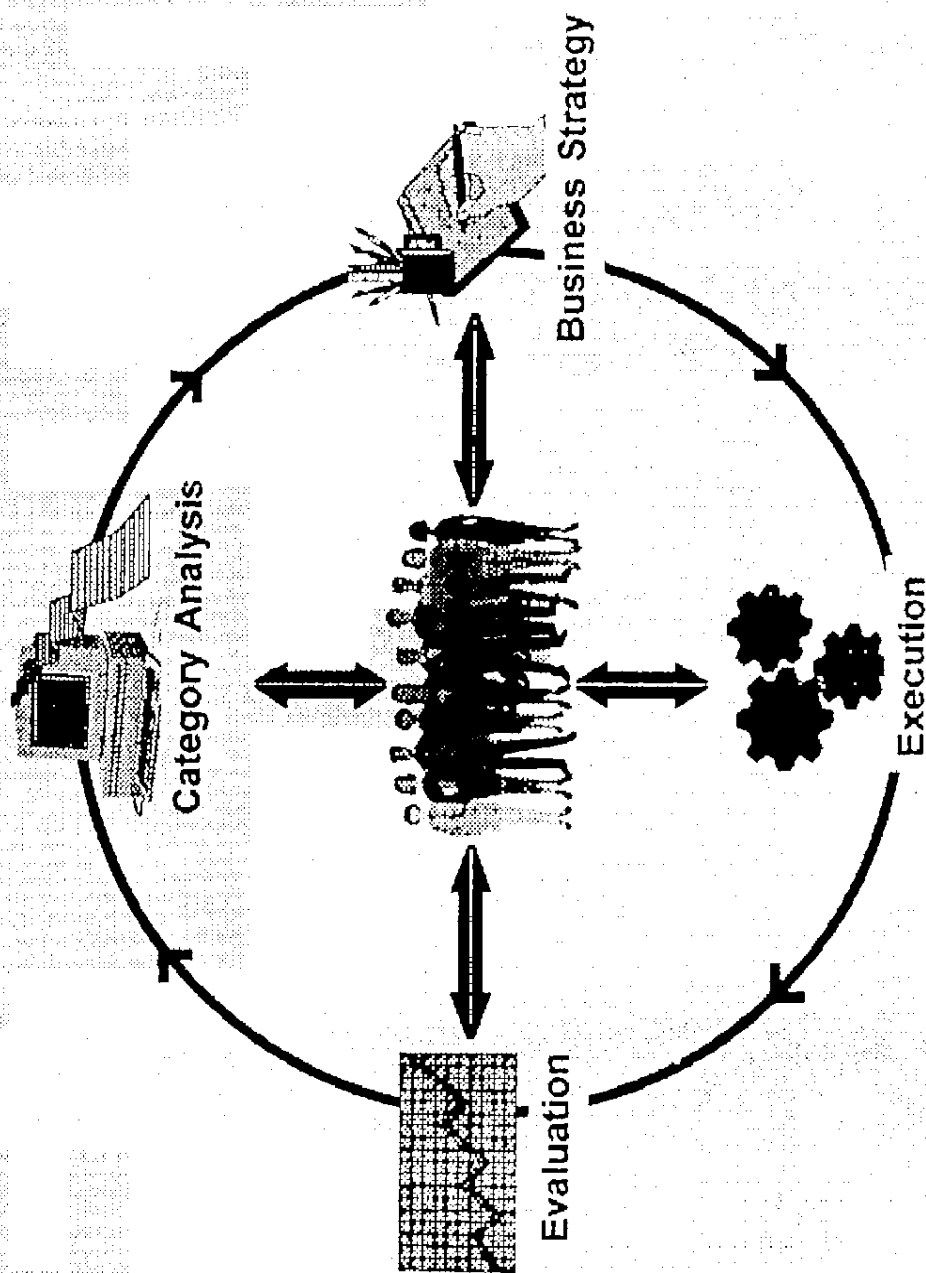
# Total U.S. Drug Stores Share of Market By Price Tier 1st Half, 1996



## Drug Store Facts

- Annual drug stores sales of cigarettes are expected to be around \$2.0 billion for 1996.
- The drug stores share of total U.S. cigarette volume is approximately 5%.
- Cigarettes account for about 5% of total drug stores all commodity volume.
- The average drug stores sells approximately 82 cartons of cigarettes per week.
- 51% of the cigarette volume that moves through drug stores is in cartons, 49% in packs.
- Drug stores are highly developed among female smokers, 50+ year-old smokers, carton purchasers, 100mm smokers, and ultra low tar smokers.

# Cigarette Category Management



RJR Category Management Process

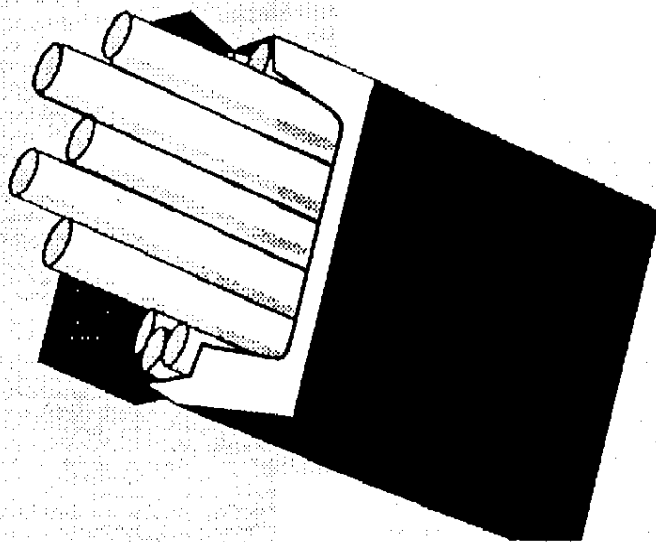
### **RJR Cigarette Category Definition**

- **Simply stated - Cigarettes**
- **RJR further defines the category based on consumer perceptions of product characteristics which directly influence their purchase decisions.**

### **RJR Category Management Definition**

**Category Management is a consumer focused, information based process of establishing strategies and making decisions on product mix, distribution, merchandising and service, in order to maximize consumer satisfaction and category profitability.**

# Key Elements Of Category Performance



SKU / Inventory Management

Space Management

Profit-Effective Volume Building

Customer Service

External Influences

# Elements Of Cigarette Category Management

## What It Means To :

Manufacturer

Retailer

Consumer

### **Product Management**

- SKU Management
- Inventory Control

Brands  
Production

Assortment  
ROI

Selection  
Availability

### **Space Management**

- Fixturing
- Space Allocation
- RDA \$'s

P.O.S.

Merchandising

Accessibility

### **Profit Effective Volume Building**

- Pricing Strategies
- Promotions
- Display and Advertising
- Trade Incentives / Programs

Equity

Sales

Value

### **Customer Service**

- Distribution
- Product Freshness
- Promotion Support
- Consumer Focus

Category Expertise

Advantage

Smoker Friendly

### **External Influences**

- Legislative Issues
- Excise Tax Impact
- Social Stigma Issues

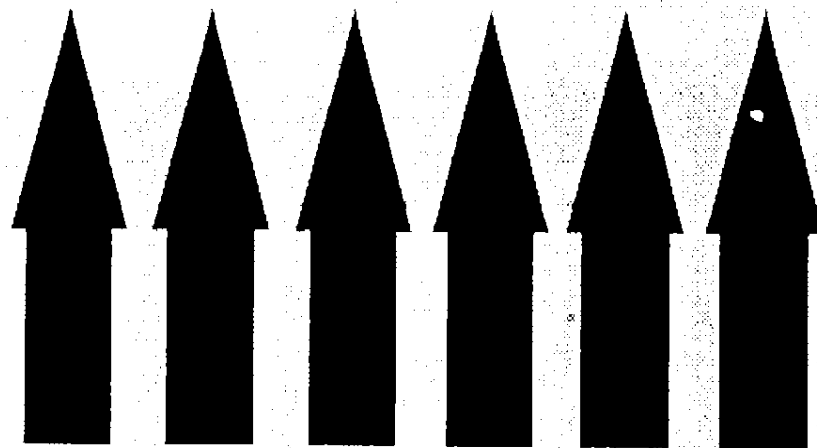
Earnings

Earnings

Freedom

# Consumer Decision Tree

Is Based On Critical Product Characteristics



- Carton or Pack(s)

- Full Price, Branded Savings or PL/ Blk & White

- Menthol or Non-Menthol

- Non-Filter, Full Flavor Filter, Lights Filter, or Ultra Lights

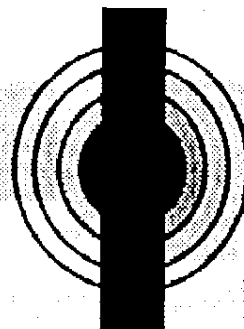
- 85mm, 100mm or 120mm

- Soft Pack or Box / - Normal, Slims or Wides

## RJR Capabilities

RJR Can Act As Your Category Advisor, Utilizing Our Resources  
To Help Build & Support Your Cigarette Category Strategy

- Data Processing
- Marketplace Analysis
- Space Management
- Profitability Analysis
- Excise Tax Impacts
- Marketing Research
- Field Sales Expertise
- Trade Programs
- Merchandising Expertise
- Promotion Expertise
- Sports Marketing Expertise ✓
- Direct Marketing Expertise ✓
- Private Label Expertise

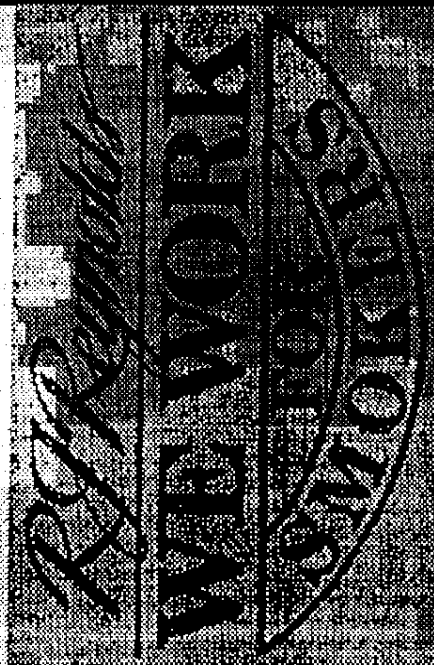


*Profitability Through Category Management*



## How Do We Capitalize On The Future ?

- \$ Focus on the Consumer
- \$ Price Gap Pricing Strategy
- \$ Merchandise to Maximize Category Profitability
  - *Display and Promote Top Selling FP Brands (Packs & Cartons)*
  - *Provide space according to Category Sales*
  - *Avoid Exclusivity*
- \$ Reduce excess Inventory and SKU's of Lower Price Brands
- \$ Meet the needs of the Economy Buyer with a Value Brand
- \$ Innovative Pricing Strategies can capture Business ... 3 packs, 2 packs ...
- \$ Account (Store) Specific Marketing
- \$ Utilize Account Information Management Data (AIM)



## *What Does The Future Hold ?*

- Protect Profitability and Dollar Sales of Full Price Brands
- Inventory Control - A Must
- More Importance of Price Gap in Buying Decision
- Strong Competition from other Retail Segments
- "Total" Category Management
- Exclusivity Limits Category Sales and Profits

